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DETERMINANTS OF JOINT SUPPLIER-RETAILER PROJECT PERFORMANCE IN CATEGORY MANAGEMENT FIELD

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Abstract: In the situation of increasing competition between retailers and between suppliers successful joint projects in category management field can be viewed as source of competitive advantage obtaining both for supplier and retailer. On the other hand unsuccessful category management projects can harm seriously supplier-retailer relationship. This study aims to investigate the factors which could influence the joint category management project performance in negative or positive way. The factors are classified by the stakeholders of category management process in product category. The finding presents the framework for future research concerning eliminating these factors in supplier-retailer relationship management.

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Introduction

Category management (CM) is one of the key tools of Efficient Consumer Response (ECR) concept and broadly used now by many suppliers and retailers all around the world (Dussart, 1998; Desrochers et al., 2003; Basuroy et al. 2001; Gajanan et al., 2007; Kurtuluş, Toktay, 2011). There is a lot of literature concerning category management strategies, in-store marketing activities, all kinds of category management techniques (Cortiñas et al., 2008; Hübner, Kuhn, 2012) and consequences of CM implementation (Desrochers et al., 2003; Kurtuluş, Nakkas, 2011; Kurtuluş et al., 2014).

However the gap in research still exists as lack of systematic research of key factors influencing CM projects performance and the ways of the supplier-retailer relationship management leading to successful CM implementation. Existing studies in this area have rather controversial results and mainly based on emerged market data (Gruen, Shah, 2000; Gooner et al., 2011), while emerging markets definitely have specific features of retail chains development.

Current changes in Russian retailing sector (and in most of emerging markets) require new approaches to buyer-supplier relationship and new tools for competition which certainly includes category management practices:

First, retail chains keep on growing in Russia and competition between top-retailers is going to be even «hotter» since possibilities for extensive growth such as regional development almost exhausted. During 2007-2013 chains share in Russian FMCG sector turnover almost doubled (see Fig.1). In this situation category management should be viewed by retailers as a tool for consumer attractiveness and market diversification.

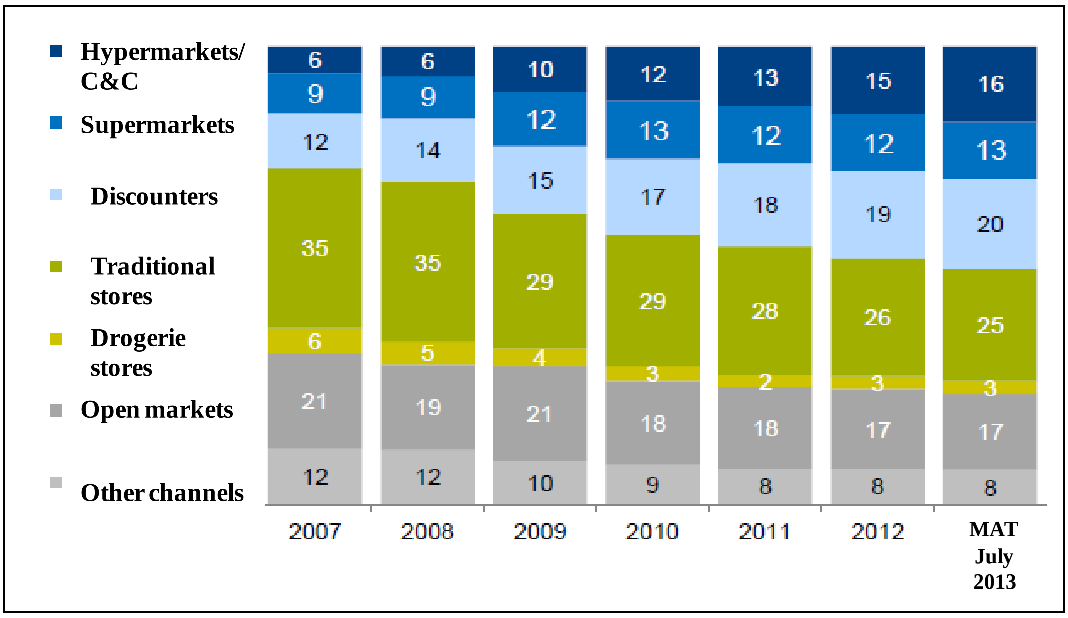

Fig. 1 Russian retail trade formats development - shares in market turnover % (Source: GfK Rus ConsumerScan)

Second, marketing budgets are relocated from ATL (media advertising) to BTL (in-store activity) marketing tools due to consumer marketing further development. As key idea of category management is to “to produce enhanced business results by focusing on delivering better consumer value” (AC Nielsen 2006; Dupre, Gruen, 2004) these tools can be used more effectively in category management context when retailer and manufacturer join their marketing capabilities.

Third, changes in market power balance are clearly observed in last years. Retail chains in 2000s grew rapidly and became the biggest companies in FMCG sector, significantly bigger than the most of manufacturers; so the market power shifted from suppliers to retailers (Spector, 2005). Now suppliers have to find the new strategies for more effective relationship with retailer. In the works of V. Radaev the specific features and strength of relational conflicts in Russian retailing discussed in details (Radaev, 2007; 2009; 2011). Category management as close collaboration of supplier and retailer can become promising possibility to develop a dialog between them and keep balance in their relationship.

Taking into account all the above in this context of increasing market competition effective implementation of category management practices can be used for a sustainable competitive advantage obtaining both for retailer and manufacturer (Dupre, Gruen, 2004; Pepe et al., 2012). However unsuccessful category management projects can lead to negative consequences for supplier-retailer relationships as they can hurt trust between partners.

Thus when using CM for obtaining sustainable competitive advantage for both sides of collaboration the partners should remember about negative consequences of unsuccessful projects and clearly realized what can harm or support the success of the project. So the main aim of our research is to define factors which could influence category management project performance in negative or positive way and try to analyze how they could by (if could be) eliminate in supplier-retailer relationship.

Theoretical Background

Category management concept.

Category management appeared in the beginning of 1990s as a new approach to retail sales management which should help retailers and supplier compete successfully for the shoppers. CM is a part of ECR (Efficient Consumer Response) concept which define as “business process and strategy where channel members form mutually beneficial relationships to bring better value to the end customer” (Dupre, Gruen, 2004). Category management key idea is to manage entire product category in retail stores as separate business as there are obvious interrelationship between products within the category while traditional brand management approach focuses on individual brands rather than on product category on the whole.

According to T.W. Gruen and R.H. Shah main purpose of category management is “retailers to provide of the right mix of products, at the right price, with the right promotions, at the right time, and at the right place” (Gruen, Shah, 2000). However as retailers have hundreds of categories in the assortment they are not able to manage all them effectively because of lack of resources and marketing expertise (Morgan et al., 2007). So for the most effective implementation of category management approach retailers should join their efforts with suppliers who excellent know market trends in their categories and can provide retailers with the best marketing expertise and even needed resources.

There are two formal definitions of category management which are most broadly used in research literature. First was suggested by ECR organization in 1995: “category management is a Retailer-Supplier Process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer value” (Joint Industry Report on Efficient Consumer Response, 1995). Thus according to this definition category management is definitely process of cooperation between supplier and retailer for obtaining better business results for both sides.

The second definition was provided by AC Nielsen and defines category management as process that involves managing product categories as business units and customizing them (on a store by store basis) to satisfy customer needs (AC Nielsen, 1992). Although there in this definition supplier-retailer collaboration is not mentioned explicitly, AC Nielsen also considers joint supplier-retailer projects as the most efficient way for category management implementation (AC Nielsen, 1992).

Thus category management has three main ideas: to manage entire product category as strategic business units, to obtain better business results by delivering better customer value (by better satisfaction of customer needs) , to joint efforts of retailers and supplier in this process.

A special form of category management is category captaincy, where the retailer chooses one of the manufacturers in category for close cooperation to manage the category. This manufacturer is called category captain and provided access to entire retailer's sales and marketing data. Based on this data and its own market expertise the captain provide the retailers with category plan which includes recommendations concerning shelf-space management, pricing, product assortment, promotions and consumer navigation in category. The captain can also share costs of category plan implementation with the retailers. The interactions between the retailer and the captain are governed by category captain arrangement which usually sets out the responsibilities and rights of the parties, projects timing, recourses and objectives (Bandyopadhyay et al., 2009). This type of supplier-retailer cooperation in category management field is the most common practice nowadays (Kurtuluş, Toktay, 2011; Kurtuluş, Nakkas, 2011; Kurtuluş et al., 2014).

Category management process: stakeholders.

Taking into account all the above the stakeholders of category management process can be defined (see Fig. 2).

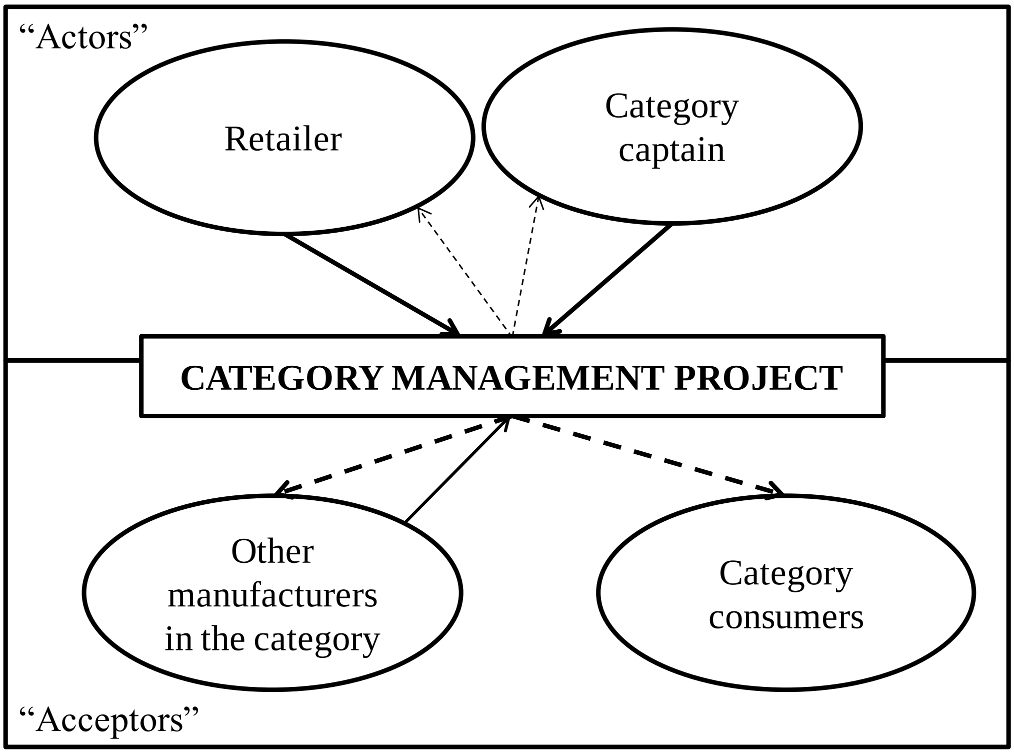

Fig. 2. Category management projects' stakeholders.

The category management projects' stakeholders could be divided into two groups. The first group is 'actors' who directly initiate and run the project, anticipate and control (to some extend) project's purposes and consequences: the retailer and the captain. The second group is influenced 'acceptors' who are affected by the project, they cannot directly influence its implementation. This group includes category consumers and other manufacturers in the category. While other player in category can participate in category management project at least partially and can thus influence it, consumers usually can observed only final stages of the project and cannot affect the CM process. So we assume what three stakeholders who can influence CM projects implementation and performance are the captain, the retailer and the other manufacturers in category.

Factors, influence CM project performance.

The main purpose of our research is to identify the factors which could influence the CM projects in negative or positive way and try identifying the way to eliminate these factors in supplier-retailer relationship. Based on literature review in category management we defined the list of factors which can affect category management projects' implementation and performance, determine the appropriate concept from relationship marketing theory for most of them and then classify them for future research purposes by CM process stakeholders (Table 1).

For most of determinants of CM projects performance the relative conceptual categories can be found in theory of relationship marketing. For instance, one of the best elaborated categories in relationship marketing 'opportunism' can be associated in CM projects with the category captain opportunistic behavior, objectivity of category plan (the plan should be aimed at entire category performance improvement and the captain should not take advantage of it). The impact of "quality of communication and data-sharing" on the effectiveness of relations also well studied however it has not been reflected in research of relationships in category management field yet. We assume that it should be added in CM projects' performance analysis as inefficient data-sharing is mentioned by industry exports as one of the key obstacles for CM development in Russia (according to materials of ECR Russia conference 2012). There are also some factors influencing the category management projects' implementation and performance which cannot be referred directly to one of the key categories of relationship marketing. We suppose that these factors reflect the specificity of category management process as supplier-retailer collaboration. This comparison of particular determinants of category management projects' performance and factors defining effectiveness of relationships in classic relationship marketing theory provides a framework for future research of CM process efficiency in context of supplier-retailer collaboration.

As was mentioned before three main stakeholders can influence the category management project implementation and performance – the retailer, the captain and, in a less degree, other suppliers in the category. We associate each of the determined factors with the stakeholders who assign or can moderate it. Based on this consistency the two-level model of category management projects' implementation and performance was established (fig. 3).

	CM projects' influencing factor	To which stakeholders factor refers to	Reference in CM field	Relationship marketing concept	Reference in Relationship marketing field
1	opportunistic behavior	captain	Gruen, Shah, 2000	Opportunism	Mohr , Spekman, 1994; Kumar et al. 1995; Dorsch et al., 1998; Johnson, 1999
2	lead supplier opportunism	captain	Gooner et al, 2011		
3	category plan objectivity	captain	Gruen, Shah, 2000		
4	buyer-seller trust	retailer and captain	Dupre, Gruen, 2004	Trust	Wilson, Jantrania, 1994; Kumar et al. 1995; Dorsch et al., 1998; Johnson, 1999; Naudé, Buttle 2000
5	retailer system trust	retailer and captain	Gruen, Shah, 2000		
6	lead supplier influence	captain	Gooner et al, 2011	Power	Naudé, Buttle 2000; Caniëls, Gelderman, 2007
7	retailer relative resources	retailer	Gooner et al, 2011	Readiness for investment	Wilson, Jantrania, 1994; Kumar et al. 1995
8	project resources	captain	Dupre, Gruen, 2004		
9	retailer marketing capabilities	retailer	Gooner et al, 2011		
10	brand management/ sales conflict	captain	Gruen, Shah, 2000	Internal patterns	Dorsch et al., 1998
11	entire organisational culture	captain	Dupre, Gruen, 2004		
12	quality of pre-planning agreement	retailer and captain	Gruen, Shah, 2000	Partners common objectives	Wilson, Jantrania, 1994
13	ability to measure success	retailer and captain	Dupre, Gruen, 2004		
14	effective communication	retailer and captain	Not defined	Communication and data-sharing	Mohr , Spekman, 1994; Storbacka et al., 1994; Whipple et al. 2010
15	category strategic role and definition	retailer and captain	Dupre, Gruen, 2004	-	-
			Dhar et al., 2001		
			Gooner et al, 2011		
16	militancy by other suppliers	other suppliers	Gooner et al, 2011		
17	CM intensity in product category	retailer	Gooner et al, 2011		
18	category plan implementation	retailer	Gruen, Shah, 2000		

Table 1. CM project performance: influencing factors

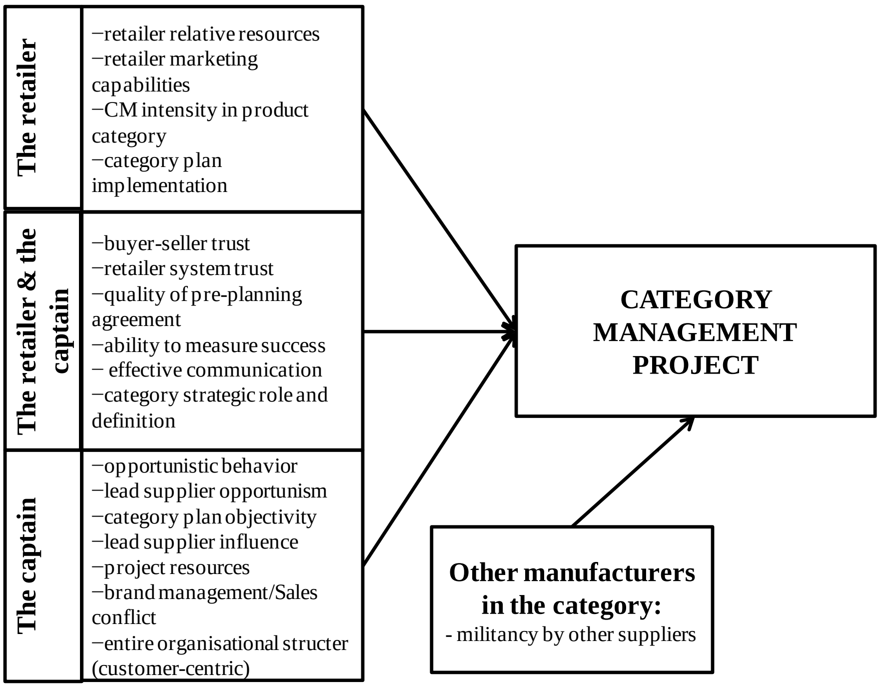

Fig. 3. Category management process: influencing factors

First level of analysis represent stakeholders of category management project while the second level includes the determinants which are defined and/or controlled by this stakeholder. This two-level approach allows us to structure data collection process which include interview with industry experts from the side of each stakeholder. It's also used for adjustment the model for the emerging markets' context on base of collected data as sets of second-level factors will be specified for every first-level variable.

Findings and further research developments

Our research provides some useful insights for future analysis of category management projects' implementation and performance determinants.

First, based on existing literature in category management field we identified the variety of factors which can affect category management project implementation and performance in negative or positive way. Second, we matched these factors with the key categories in relationship marketing theory to get the framework for future investigation of possibilities to manage these factors in supplier-retailer relationship. Finally, we proposed the two-level model of CM projects' implementations and performance determinants which includes stakeholders of the process as the first level and the particular influencing factors as the second level. As existing studies in this field are based on emerged market data the model should be adjusted for emerging market. This could be done efficiently using this two-level approach.

Further research development can be: the model adjustment for emerging markets on the base of semi-structured interviews with industry experts; the adjusted model analysis using quantitative and/or qualitative methods and study of how the factors defined in the final model can be (if could be) eliminated in supplier-retailer relationship management process.

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